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SENSITIVE  
SIPDIS

DEPT FOR PDAS PATRICK MOON

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [KDEM](#) [MARR](#) [NP](#)

SUBJECT: NEPAL: SCENESETTER FOR PDAS MOON VISIT

¶1. (SBU) PDAS Moon, Embassy Kathmandu warmly welcomes you to Nepal. You are arriving at a particularly critical juncture in the peace process, with "indefinite" Maoist protests still threatened for January 24, despite some welcome progress on unblocking the political process. Pressure building as the Comprehensive Peace Agreement deadline of May 28 approaches for completing the integration and rehabilitation of former Maoist combatants and drafting a new constitution. Your visit offers a timely opportunity to press for progress on these key issues, as well as raise important human rights concerns. The United States has been an active funder and supporter of Nepal's bumpy peace process and maintains good access and influence with the major parties.

#### Tentative Progress on Peace Process, Tough Issues Ahead

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¶2. (SBU) For the first time since the resignation of the Maoist government in May, we have some tentative progress on Nepal's peace process. After nearly two years of stalling, the Maoists have finally begun discharging the 4,008 disqualified former combatants, most of whom were under 18 years old when the conflict ended. You will visit one of the seven main Maoist cantonment sites, where preparations will be underway for discharging the disqualified on January 21.

¶3. (SBU) While the discharge of the disqualified former combatants is a positive (and long overdue) step, the more difficult challenge remains: the fate of the 19,008 "verified" Maoist combatants. Under the Comprehensive Peace Agreement, some number of these will be integrated into the "security forces," including the Nepal Army, and the remainder reintegrated into Nepali society. The Government of Nepal (GON) recently unveiled a plan to complete this process by April 30, a deadline that no one -- including the GON itself -- believes is realistic. The Maoists agree in principle with the action plan, although many observers believe the Maoists are unlikely to give up their combatants, which they view as leverage, until they are satisfied with the new constitution and their overall political position.

#### Constitution Drafting Plods Along

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¶4. (SBU) On the constitution, Nepal's unwieldy 601-person Constituent Assembly (CA) has made steady, albeit painfully slow, progress in recent months. Nine of the eleven "thematic committees" have presented their reports, and work has begun on drafting constitutional text. On the most difficult issues -- federalism, the structure of the government, judicial independence, the electoral system, land reform -- the Maoists and other parties remain philosophically divided.

¶5. (SBU) The Constituent Assembly's mandate ends May 28, and the CA is highly unlikely to promulgate a new constitution by that date. In that case, the CA most likely will extend its own life by six months or longer. Such a step would require a two-thirds majority, which means that the Maoists (which have 40 percent of the seats) and a mix of other parties (the Nepali Congress has 19 percent; the United Marxist Leninist 18 percent; various Terai parties some 12 percent) will have to agree on the extension, a decision that will be politically difficult. Some conservative Nepali lawyers have argued that the CA does not have the authority to prolong its own existence, and have floated the idea of the president taking over after May 28, a highly provocative step that the Maoists would strongly protest since it would effectively marginalize them in the political process.

#### Lots of Political Talk, Little Action

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¶6. (SBU) Concluding the integration and rehabilitation process and constitution drafting will require intense

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political dialogue and difficult trade-offs among the three major parties: the United Communist Party of Nepal-Maoist, the Nepali Congress, and the Communist Party of Nepal-United Marxist Leninist (UML). The recently-created High-Level Political Mechanism, led by ailing, 85-year-old Nepali Congress President G.P. Koirala, could be a forum for such talks, but each of the leaders in the Mechanism faces strong challenges from within their parties, complicating the negotiation process. Unlike the 2005-2006 peace negotiations, leaders Pushpa Dahal "Prachanda" and G.P. Koirala cannot, by themselves, drive the process to its conclusion.

#### Maoists Tactics Shifting

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¶7. (SBU) The political climate has improved slightly in recent weeks, in part because of a shift in Maoist tactics. The party allowed Parliament to resume functioning on December 23, began the discharge of the disqualified on January 7, and supported the creation of the High-Level Political Mechanism on January 8, all positive steps. At the same time, the threat of an indefinite general strike or "bandh" for January 24 looms, a tactic that the Maoists (and other political groups) use extensively, much to the detriment of the average Nepali. The Maoists have also begun nationalist and highly vitriolic attacks on India, which may have gained them some domestic support but also further alienated New Delhi.

¶8. (SBU) Where the Maoists are headed remains unclear, perhaps even to the Maoists themselves. The divisions between the pragmatists and the hardliners appear somewhat sharper -- and more public -- than in the past, and Prachanda may be having difficulty straddling the fence. There are reports the Indians and others are trying to use these divisions to split the Maoists in order to form a more centrist governing coalition. This is unlikely to succeed. In the short-term, the Maoists are desperate to return to power, and continue to look for openings to peel off support from other parties (just as the other parties are doing the same to the Maoists).

¶9. (SBU) While we regularly engage the Maoist leadership, the terrorist designation continues to affect our relationship.

Per the IPC instructions, we recently presented the Maoists with a non-paper in local language outlining the steps necessary to be removed from the two U.S. terrorist lists. While these benchmarks are not new -- A/S Boucher and Blake made the same case to Prachanda -- the written document ensures full comprehension and creates a basis for further discussions. We believe the Maoists would like to get off the U.S. terrorist lists, both to simplify the process for getting visas to the United States and to gain international credibility.

#### Between India and China

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¶10. (SBU) Your visit will come on the heels of the Indian Foreign Minister's first trip to Nepal, and concurrent with the Indian Chief of Army Staff's initial visit. Fairly or unfairly, India is seen as the malign force behind every political development in Nepal. India engineered the 2005 12-point Agreement, working closely with Maoist leaders. Since then, and particularly following the Maoist's brief period as head of government, Indian distrust of the Maoists has grown, perhaps in part due to India's own Maoist problems (although there is no evidence of cooperation between the two Maoist movements), or perhaps due to the perception that Prachanda was tilting too far toward China. The Maoist new stridently anti-Indian rhetoric doesn't help matters. New Delhi is now seen as opposing the Maoist return to power.

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¶11. (SBU) Nepali leaders have for centuries tried to use Nepal's other neighbor, China, to counterbalance Indian influence, nearly always failing. PM M.K. Nepal recently returned from a China trip, with promises of additional financial assistance and investment. While there is some evidence of increased Chinese economic activity in Nepal, China's main interests in Nepal are maintaining a stable buffer between it and India, and ensuring Tibetans do not start anti-Chinese movements from Nepal. (There are approximately 20,000 Tibetans living in Nepal.)

#### Nepal Army Influential, Unsure of Future

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¶12. (SBU) The Nepal Army, perhaps the country's strongest institution, remains unsure about its place in a "new Nepal." The Army is the fifth-largest contributor of troops to UN peace operations, and its troops are generally considered professional and competent. We have a positive military-to-military relationship with the Army, and many of its senior leadership were trained in the United States. For the first time since 2005, we will provide approximately USD 1 million in FMF to Nepal, although Senator Leahy's recent amendment to the Foreign Operations bill limits FMF to humanitarian assistance, unless the Army meets certain human rights criteria. The Army continues to be dogged by conflict-era human rights allegations. The recent promotion of General Toran Singh, who commanded one of the units accused of committing gross human rights abuses in 2003, as well as the Army's foot-dragging on cooperation with civilian courts in the case of Major Nirajan Basnet, raises questions about the Army's commitment to human rights. The Army points out (rightly) that the Maoists also committed atrocities during the conflict, but have not been held accountable. The Nepal Army has had no human rights violations since the end of the conflict, while the some Maoist criminal and human rights violations continue.

#### Security Situation Somewhat Improved

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¶13. (SBU) The law and order situation, particularly in the Terai, remains poor. Few criminals are arrested and prosecuted, and criminal gangs along the Indian border operate with impunity. The GON's Special Security Plan appears to be having some positive effect, particularly along the Indian border, although the police lack resources to implement the plan effectively. The Maoist-affiliated youth

wing, the Young Communist League (YCL), continues to engage in illegal activities, such as threats, and extortion.

#### Economy and Development

¶14. (SBU) As the peace process drags on, Nepal's economy continues to stagnate. Nepal is one of the poorest countries in the world, with a per capita GDP of approximately \$400. As many as one-third of Nepalis are food insecure, while the small elite lives well (the Gini coefficient has doubled in the last ten years). The economic hopes for many Nepalis now rest outside the country, with as many as 2.5 to 4 million Nepalis working abroad; remittances account for 20 percent of GDP. New investment is low; political instability, labor unrest, high transportation costs, and power shortages scare away even the most adventurous of investors. Tourism has returned to pre-conflict level, but Nepal is no where near reaching its full potential. Trade with the U.S., mostly carpets and pashminas, is relatively small and declining, in part due to the end of duty-free access for textile exports. Donors provide significant development resources in Nepal. USAID has a diverse program, approximately \$50 million in FY 2010, focused on health, democracy, and economic growth. USAID's health and environment projects have been particularly innovative and successful, despite the political situation.

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